

# **Recommendation on Amendment to Risk Appetite Statement**

## **50<sup>th</sup> Board Meeting**

GF/B50/03

14-16 November 2023, Geneva, Switzerland

### **For Board Decision**

Purpose: Request to the Board to approve adjustments to the risk appetite statement for malaria Program Quality risk to reflect the worsening risk environment for Malaria programs, taking into account the recommendation from the Audit and Finance Committee.

## **Decision**

### **Decision Point: GF/B50/DPXX: Amended Risk Appetite Statement**

1. The Board:

- i. recalls its ultimate responsibility to the Global Fund's stakeholders for overseeing the implementation of effective risk management;
- ii. affirms the Strategy Committee's concurrence with the amended Risk Appetite Statement under such committee's oversight, as reported to the Audit and Finance Committee; and
- iii. further affirms the Audit and Finance Committee's concurrence with the amended Risk Appetite Statement and integration of the Strategy Committee's concurrence, as set forth in Annex 1 to GF/AFC23/8A – Revision 2 and pursuant to decision point GF/AFC23/DP04.

2. Based upon the recommendation of the Audit and Finance Committee, the Board approves the amended Risk Appetite Statement, including risk appetite and timeframes to achieve target risk, as set forth in the table in Annex 1 to GF/B50/03, acknowledging that the target risk level for each risk shall become the revised risk appetite at the target due date, or when earlier achieved.

3. This decision point and the amended Risk Appetite Statement approved by it shall supplement decision point GF/B49/DP04 (May 2023).

## Context

1. The trajectory of the malaria Program Quality Risk continues its upward trend and is currently on the cusp of moving to Very High risk. Bottom-up analysis indicates that nearly 40% (24/58) of the High Impact and Core portfolios are rated as High or Very High risk. The increasing trajectory is driven by numerous threats to control and elimination efforts, including climate change, disruptions caused by health and humanitarian emergencies and the spread of drug and insecticide resistance and biological threats that reduce the effectiveness of key malaria control tools and contribute to increases in program costs. This is in the context of macro-economic and health financing threats which accentuate gaps in coverage of critical malaria interventions.
2. To address malaria Program Quality risk, the Global Fund and partners are required to continuously evaluate, negotiate, and tailor the mix of interventions and strategies to strike a balance that maximizes the impact of malaria interventions. Each decision made requires a risk trade-off which has real consequences. Examples of risk trade-offs made within malaria programs include the introduction of more expensive and effective tools (e.g., dual active ingredient nets) at the cost of achieving national coverage versus maintaining coverage with existing tools, or fixed-point delivery versus door-to-door Long Lasting Insecticide Nets (LLINs) distribution (or other distribution modalities) to optimize costs. The suite of mitigating actions put in place at the country level based on local data and contextual information – with support from the partnership – serve to reduce the impact of risks to malaria program quality, however in the context of significant funding gaps and growing external threats for malaria there is a real possibility that program quality risk remains Very High.
3. Due to this challenging environment and the resulting increasing risk trajectory, in March 2023 the Audit and Finance Committee (AFC) put forward a recommendation to the Board to increase the malaria Program Quality risk appetite from High to Very High – this recommendation was approved. This approval ensures the Secretariat has the flexibility to make the difficult trade-off decisions necessary to ensure program continuity and to help generate the desired level of attention and call to action from all key stakeholders needed to address the emerging threat.
4. Furthermore, at the 49<sup>th</sup> Board meeting in May 2023, the Secretariat committed to putting forward a proposal for AFC recommendation to the Board in October and November 2023 concerning the target timeframes for reducing the malaria Program Quality risk level back to High and then to Moderate. This paper contains the recommendation, as well as the method adopted to inform the recommendation.

## Input sought

5. The Board is requested to approve the following Decision Point on page 1 on the recommendation of the AFC.

# Report

## Method adopted to arrive at recommendation

### Background on Global Fund risk aggregation method

1. The Global Fund systematically assesses risks for all grants across High Impact and Core Portfolios. Risks are assessed at the grant level, taking into consideration progress against global targets, the performance across key grant indicators (determines the level of ambition), operational risks (design and implementation), and emerging risks.
2. Grant-level risks are aggregated into a single risk rating for each country portfolio and these are further aggregated to arrive at the organizational risk rating (weighted by the country allocation amount).

### Method to determine revised target risk timeframe

3. To arrive at the recommendation on the Target Risk Timeframe for the malaria Program Quality Risk, a bottom-up assessment for each High Impact and Core Portfolio country was undertaken, following the below steps:
  - i. Extraction of current risk level and projected target due dates for malaria Program Quality risk as assessed by the Secretariat by mid-2023. (Extracts were from the risk management module (Integrated Risk Management 2.0).)
  - ii. Listing of available evidence (retrospective) for each portfolio that would suggest presence or absence of key risk drivers, and assessment of the likelihood of those drivers materializing and the Global Fund's ability to mitigate:
    - Climate change.
    - Political instability and humanitarian crisis.
    - Biological threats, insecticide and drug resistance.
    - Mismatch between available resources and needs.
    - Program quality risks.
  - iii. Projection of anticipated risk level over the next 3 years (end of Grant Cycle (GC) 7), to estimate the target residual risk level. The key factors considered while projecting the risk level for each country included:
    - Country context i.e., baseline risks, risk drivers, GC7 funding gaps (programmatic coverage gaps, financial gaps and Technical Review Panel (TRP) observations).
    - Gaps to Global Technical Strategy targets<sup>2</sup> and projected impact gap (mortality and incidence).
4. The Secretariat projections are based on its assessment of the likelihood of adverse events occurring in a specific portfolio and its impact on the grants. The key assumptions driving

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<sup>2</sup> <https://www.who.int/publications/i/item/9789240031357>

the projections include the ability to ensure coverage of case management and vector control interventions under the grant within available funding, the ability to introduce optimal vector control interventions based on resistance profile to scale, and the ability to circumvent security-related disruptions on malaria services in a given portfolio over the next 3 years. The factors considered beyond the control of the Secretariat include climate change events and resource gaps due to changes in external and domestic financing and the cost of program delivery.

5. Malaria partners were consulted through the Country/Regional Support Partner Committee (CRSPC) platform to sense check the projections at an aggregate level to ensure consistency with the understanding of partners of the risk landscape, disease trends and coverage gaps they were observing, and taking into account the wider partnership-wide mitigation action plan.
6. Feedback from the CRSPC has been incorporated and the proposal adjusted to project the risk trajectory for the current cycle, given the overall volatility of the risk environment, including future funding.

## **Summary of bottom-up analysis**

7. Several countries illustrate increasing or stagnant trends in incidence. Therefore, the malaria Program Quality Risk is likely to worsen before it gets better. This is particularly true in some High Burden High Impact (HBHI) countries where there are high inherent risks and potential funding gaps to maintaining coverage through the GC7 cycle. Progression in risk trajectory beyond 2025 is dependent on meeting coverage gaps and scale-up of appropriate tools (Artemisinin-based combination therapies/ long-lasting insecticidal nets) to address drug and insecticide resistance.
8. Initiatives and actions at the partnership level, if successfully operationalized, can facilitate reversal of trajectory:
  - i. Heightened attention on the emerging threats and efforts to mobilize additional resources (domestic and external financing).
  - ii. Coordinated multisectoral responses to end malaria recognizing the intersectionality of climate change and malaria.
  - iii. Optimizing Global Fund and partner investments in GC7.
  - iv. Introduction and scale up of new tools such as dual-ai nets.
  - v. Focus on promoting data driven intervention mixes, removal of equity, human rights, gender equality (EHRGE) barriers, integrated patient centered service delivery approaches and fit for purpose implementation models.
9. There is likely to be some lag in stabilizing and bringing down the risk level, but once achieved the ability to maintain and accelerate is high.

## Risk appetite recommendation

Risk Name	Purview	Residual Risk	Risk Appetite	Target Risk	Previous Board-Approved Target Risk Timeframe	Recommended Risk Timeframe
Program Quality – Malaria	SC	High*	Very High	High	N/A	December 2025
				Moderate	June 2024	TBD

\*Residual Risk Level is at the upper end of High and is anticipated to reach Very High in the coming months.

10. Based on bottom-up analysis conducted, the Secretariat notes that:

- i. The expectation is that the malaria Program Quality risk will increase to Very High by the end of 2023 and remain at Very High through 2024 and 2025.
- ii. The external risks influencing the risk trajectory are difficult to predict and achieving a risk level of High by the end of 2025 is expected to be challenging. However, given the two-year timeframe this seems an appropriate target.
- iii. Based on information available at the end of 2025, the Secretariat will come back with an update on:
  - a. the evolution of the risk landscape;
  - b. progress towards reaching the target risk level of High; and
  - c. any recommended adjustments to the target risk timeframe to get to High, if necessary, and also recommending a timeframe for reaching the final target level of Moderate.

### Implications of extending timeframe for reducing target risk level and risk appetite:

11. Setting a target timeframe to reduce the increased risk appetite from Very High to High by December 2025 reflects an acknowledgment of the impending crisis or challenge, and the potential for a rapid reversal of gains in the fight against malaria, if the increasing risk to malaria Program Quality is not holistically addressed. The recommended adjustment will enable the Board, the TRP, and the Secretariat to make risk-based investment decisions. This includes investments in more expensive tools at the cost of maintaining population coverage, and the roll-out of new tools and innovations despite potential programmatic downsides. Risk trade-off decisions also facilitate taking incremental risks to introduce novel tools as part of the next generation market shaping Strategic Initiative.

12. The Board is requested to approve the Decision Point presented on page 1.

## **Annexes**

The following items can be found in the Annex:

- Annex 1: Amended risk appetite statement
- Annex 2: Relevant past Board decisions
- Annex 3: Relevant past documents & reference materials

## Annex 1: Amended risk appetite statement

Risk Name	Purview	Residual Risk	Risk Appetite	Target Risk	Previous Board-Approved Target Risk Timeframe	Recommended Risk Timeframe
Program Quality – Malaria	SC	High*	Very High	High	N/A	December 2025
				Moderate	June 2024	TBD

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- i. The expectation is that the malaria Program Quality risk will increase to Very High by the end of 2023 and remain at Very High through 2024 and 2025.
- ii. The external risks influencing the risk trajectory are difficult to predict and achieving a risk level of High by the end of 2025 is expected to be challenging. However, given the two-year timeframe this seems an appropriate target.
- i. Based on information available at the end of 2025 the Secretariat will come back with an update on:
  - a. the evolution of the risk landscape;
  - b. progress towards reaching the target risk level of High; and
  - c. any recommended adjustments to the target risk timeframe to get to High, if necessary, and also recommending a timeframe for reaching the final target level of Moderate.



## Annex 2: Relevant past Board decisions

Relevant past Decision Point	Summary and Impact
GF/B49/DP04: Amended Risk Appetite Statements (May 2023) <sup>3</sup>	Based upon the recommendation of the Audit and Finance Committee, the Board approves the amended Risk Appetite Statements, including risk appetites, target risk levels and timeframes to achieve target risk, as set forth in Annex 1 to GF/B49/04, acknowledging that the target risk level for each risk shall become the revised risk appetite at the target due date, or when earlier achieved.
GF/B32/DP11: Approval of the Risk Management Policy (November 2014) <sup>4</sup>	Based on the recommendation of the Finance and Operational Performance Committee, the Board approves the Risk Management Policy, as set forth in Annex 3 to GF/B32/13.

<sup>3</sup> <https://www.theglobalfund.org/kb/board-decisions/b49/b49-dp04/>

<sup>4</sup> <https://www.theglobalfund.org/kb/board-decisions/b32/b32-dp11/>

## **Annex 4: Relevant past documents & reference materials**

### **Relevant past documents:**

- [Recommendation on Adjustments to Risk Appetite \(May 2023\)](#)
- [Risk Management Report and Annual Chief Risk Officer Opinion \(May 2023\)](#)
- [Risk Management Report and Annual Chief Risk Officer Opinion \(May 2022\)](#)

### **Reference materials:**

- [The Global Fund Risk Management Policy \(November 2014\)](#)